

Tri-County Community School District
Independent Auditor's Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings and Questioned Costs

June 30, 2004

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Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2003 Election)

Raymond Adams	President	2003
Janice Collins	Board Member	2003
Mark McCullough	Board Member	2005
Gary Bates	Board Member	2003
Roger Thomas	Board Member	2004

Board of Education

(After September 2003 Election)

Mark McCullough	President	2005
Kelly Tish	Board Member	2005
Lisa Sieren	Board Member	2006
Gary Bates	Board Member	2006
Roger Thomas	Board Member	2004

School Officials

Jody Gray	Superintendent	2004
Rebecca Schmidt	District Secretary	2004
Joanne Bair	District Treasurer	2004
Richard Gaumer	Attorney	Indefinite

Independent Auditor's Report

To the Board of Education of
Tri-County Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Tri-County Community School District, Thornburg, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Tri-County Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Tri-County Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 30, 2004 on our consideration of Tri-County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information

required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri-County Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROLAND & DIELEMAN

Certified Public Accountants

August 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tri-County Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,024,540 in fiscal 2003 to \$2,771,261 in fiscal 2004, while General Fund expenditures increased from \$2,603,155 in fiscal 2003 to \$2,730,910 in fiscal 2004. The District's General Fund balance increased from \$781,799 in fiscal 2003 to \$822,150 in fiscal 2004, a 5% increase.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- A decline in interest rates during the past three fiscal years resulted in interest earnings in the General Fund alone decreasing from \$34,842 in fiscal 2003 to \$6,162 in fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Tri-County Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Tri-County Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Tri-County Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

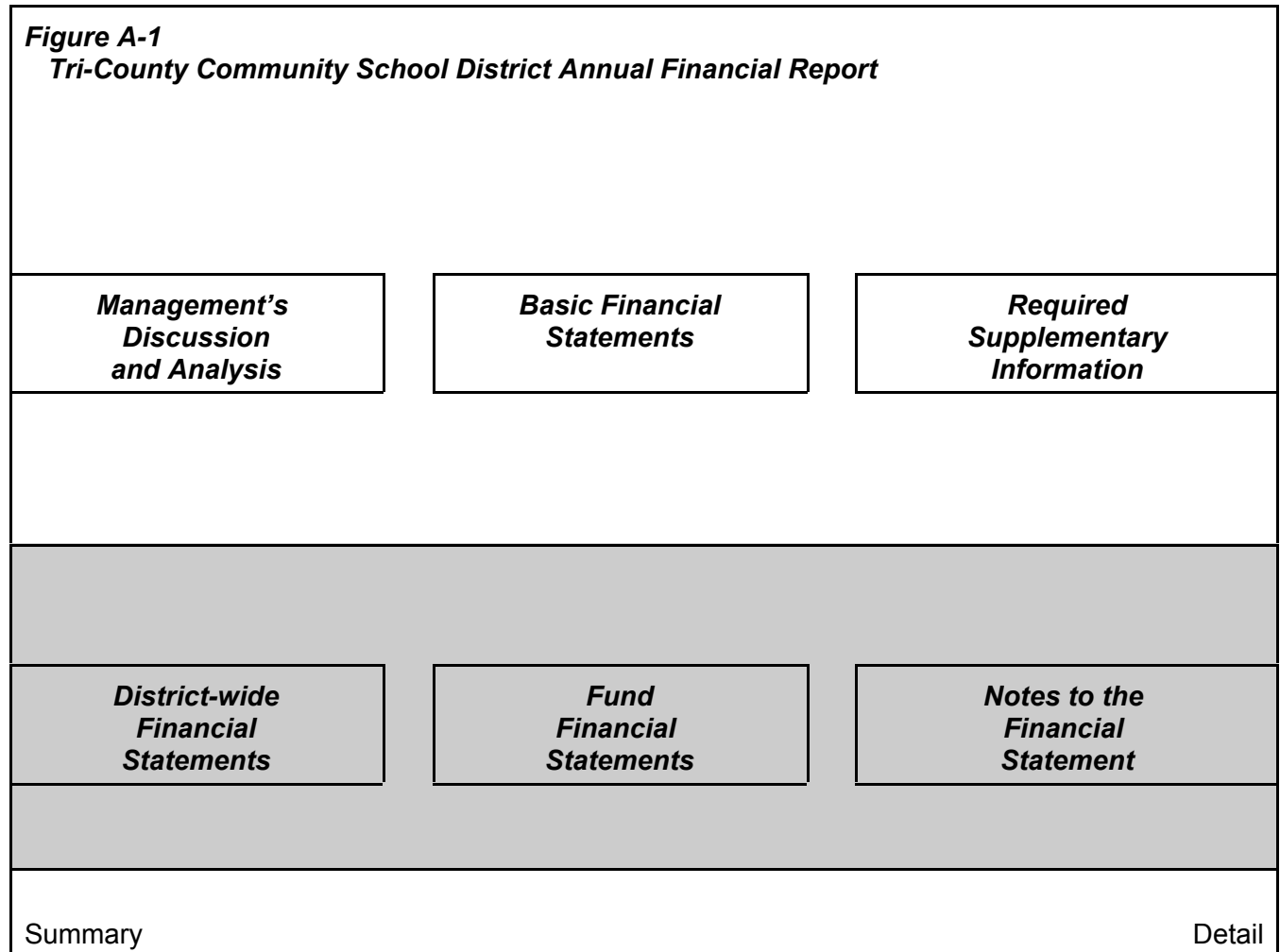


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Child Care Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds are Agency Funds.

- Agency Funds - These are funds through which the District administers and accounts for certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$2,980	3,316	14	25	2,994	3,341	(10.0)%
Capital assets	<u>1,483</u>	<u>1,397</u>	<u>0</u>	<u>0</u>	<u>1,483</u>	<u>1,397</u>	5.0%
Total assets	<u>4,463</u>	<u>4,713</u>	<u>14</u>	<u>25</u>	<u>4,477</u>	<u>4,738</u>	(6.0%)
Long-term liabilities	1,830	1,760	0	0	1,830	1,760	4.0%
Other liabilities	<u>1,910</u>	<u>2,207</u>	<u>2</u>	<u>0</u>	<u>1,910</u>	<u>2,207</u>	(13.0%)
Total liabilities	<u>3,740</u>	<u>3,967</u>	<u>2</u>	<u>0</u>	<u>3,740</u>	<u>3,967</u>	(6.0%)
Net assets:							
Investments in capital assets,							
net of related debt	(347)	(173)	0	0	(347)	(173)	101.0%
Restricted	295	40	0	0	295	40	638.0%
Unrestricted	<u>775</u>	<u>879</u>	<u>12</u>	<u>25</u>	<u>787</u>	<u>904</u>	(13.0%)
Total net assets	<u>\$ 723</u>	<u>746</u>	<u>12</u>	<u>25</u>	<u>735</u>	<u>771</u>	(5.0%)

The District's combined net assets decreased by nearly 5%, or approximately \$36,000 over the prior year. The largest portion of the District's net assets is invested in current assets. The debt related to the investment in capital assets is liquidated with sources other than capital assets. The decrease is due to the depreciation required by GASB 34 of capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$250,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$294,000, or 28%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year in PPEL and management funds.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 83	90	173
Operating grants, contributions and restricted interest	146	56	202
General revenues:			
Property tax	1,301		1,301
Local option sales and service tax	128		128
Unrestricted state grants	1,390		1,390
Other	<u>245</u>	<u>—</u>	<u>245</u>
Total revenues	3,293	146	3,439
Program expenses:			
Governmental activities:			
Instruction	2,020		2,020
Support services	924		924
Non-instructional programs	23	159	182
Other expenses	<u>357</u>	<u>—</u>	<u>357</u>
Total expenses	<u>3,324</u>	<u>159</u>	<u>3,483</u>
Change in net assets	\$ <u>(31)</u>	<u>(13)</u>	<u>(44)</u>

Property tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,293,359 and expenses were \$3,323,819. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,016	1,694
Support services	867	867
Non-instructional programs	24	24
Other expenses	<u>409</u>	<u>300</u>
Totals	<u>\$ 3,316</u>	<u>2,885</u>

The cost financed by users of the District's programs was \$430,961.

- Federal and state governments subsidized certain programs with grants and contributions totaling \$146,322.
- The net cost of governmental activities was financed with \$1,314,540 in property and other taxes and \$1,267,325 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$139,562 and expenses were \$152,058. The District's business type activities include the School Nutrition Fund and Child Care Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Tri-County Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$746,705, slightly below last year's adjusted ending fund balances of \$746,705. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to approximately \$1 million of unexpected general obligation bond proceeds received in fiscal 2004.

Governmental Fund Highlights

- The District's General Fund financial position is stable due to the board is conservative approach to spending.
- The General Fund balance increased from \$781,799 to \$822,150, due in part to changes in staff levels.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$156,190 in fiscal 2003 to \$112,934 in fiscal 2004. While revenues remained approximately the same, the district purchased a bus.
- The Management Fund balance decreased due to early retirement expenditures.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$24,562 at June 30, 2003 to \$13,834 at June 30, 2004, representing a decrease of approximately 44%. For fiscal 2004, the District hired a new head cook.

BUDGETARY HIGHLIGHTS

The District's receipts were \$213,878 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving less in taxes than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund

spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2004, the District had invested \$1.483 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$183,188.

The original cost of the District's capital assets was \$4.5 million.

The largest change in capital asset activity during the year occurred in the equipment category. \$78,888 in equipment was purchased during the year.

Figure A-6 Capital Assets, net of Depreciation (expressed in thousands)			
	Total District		Total Change
	June 30,		June 30,
	2004	2003	2003-2004
Land	\$ 23	23	0%
Buildings	1,324	1,455	(9%)
Furniture and equipment	<u>135</u>	<u>109</u>	<u>24%</u>
Totals	<u>\$1,482</u>	<u>1,587</u>	<u>7%</u>

Long-Term Debt

At June 30, 2004, the District had \$1,848,372 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

In May 2003, the District refinanced the long-term debt with reissuance of \$1,575,000 of general obligation bonds.

Figure A-7 Outstanding Long-Term Obligations (expressed in thousands)			
	Total District		Total Change
	June 30,		June 30,
	2004	2003	2003-2004
General obligation bonds	\$ 1,830	1,760	4%
Early retirement	<u>18</u>	<u>0</u>	<u>N/A</u>
Totals	<u>\$1,848</u>	<u>1,760</u>	<u>5%</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Becky Schmidt, District Secretary/Treasurer and Business Manager, Tri-County Community School District, Thornburg, Iowa, 50255.

Tri-County Community School District
Statement of Net Assets
June 30, 2004

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 728,584		728,584
Other	994,830	8,144	1,002,974
Receivables:			
Property tax:			
Delinquent	25,351		25,351
Succeeding year	1,032,763		1,032,763
Income tax	124,320		124,320
Accounts	1,612		1,612
Accrued interest:			
ISCAP	2,602		2,602
Due from other governments	70,145		70,145
Inventories		2,442	2,442
Capital assets, net of accumulated depreciation	<u>1,482,949</u>	<u>3,247</u>	<u>1,486,196</u>
Total assets	\$ <u>4,463,156</u>	<u>13,833</u>	<u>4,476,989</u>
Liabilities			
Bank overdraft	\$	2,051	2,051
Salaries and benefits payable	6,181		6,181
Deferred revenue - succeeding year property tax	1,032,763		1,032,763
Income tax	124,320		124,320
ISCAP warrants payable	724,000		724,000
ISCAP accrued interest payable	3,945		3,945
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	100,000		100,000
Portion due after on year:			
General obligation bonds payable	1,730,000		1,730,000
Early retirement	<u>18,372</u>		<u>18,372</u>
Total liabilities	\$ <u>3,739,581</u>	<u>2,051</u>	<u>3,741,632</u>
Net assets			
Invested in capital assets, net of related debt	(347,051)	3,247	(343,804)
Restricted for:			
Management levy	(2,269)		(2,269)
Physical plant and equipment levy	112,934		112,934
Other special revenue purposes	140,952		140,952
Debt service	41,526		41,526
Unrestricted	<u>777,483</u>	<u>8,535</u>	<u>786,018</u>
Total net assets	\$ <u><u>723,575</u></u>	<u><u>11,782</u></u>	<u><u>735,357</u></u>

See notes to financial statements.

Tri-County Community School District
Statement of Activities
Year ended June 30, 2004

Exhibit B

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Total					
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,183,396	162,670		(1,020,726)	(1,020,726)
Special instruction	466,193			(466,193)	(466,193)
Other instruction	366,542	159,399		(2,071,437)	(207,143)
	<u>2,016,131</u>	<u>322,069</u>		<u>(1,694,062)</u>	<u>(1,694,062)</u>
Support services:					
Student services	53,985			(53,985)	(53,985)
Instructional staff services	21,535			(21,535)	(21,535)
Administration services	364,691			(364,691)	(364,691)
Operation and maintenance of plant services	271,571			(271,571)	(271,571)
Transportation services	155,376			(155,376)	(155,376)
	<u>867,158</u>			<u>(867,158)</u>	<u>(867,158)</u>
Non-instructional programs	<u>23,742</u>			<u>(23,742)</u>	<u>(23,742)</u>
Other expenditures:					
Facilities acquisition	56,246			(56,246)	(56,246)
Long-term debt interest	61,134			(61,134)	(61,134)
AEA flowthrough	108,892		108,892		
Depreciation (unallocated)*	183,188			(183,188)	(183,188)
	<u>409,460</u>		<u>108,892</u>	<u>(300,568)</u>	<u>(300,568)</u>
Total governmental activities	<u>3,316,491</u>	<u>322,069</u>	<u>108,892</u>	<u>(2,885,530)</u>	<u>(2,885,530)</u>
Business type activities:					
Non-instructional programs:					
Food service operations	146,082	79,564	55,735		(10,783)
Child care	13,875	11,207			(2,668)
	<u>159,957</u>	<u>90,771</u>	<u>55,735</u>		<u>(13,451)</u>
Total	<u>\$ 3,476,448</u>	<u>412,840</u>	<u>164,627</u>	<u>(2,885,530)</u>	<u>(13,451)</u>
General Revenues:					
Property tax levied for:					
General purposes				1,105,501	1,105,501
Debt service				195,535	195,535
Local option sales and services tax				13,504	13,504
Unrestricted state grants				1,267,323	1,267,325
Unrestricted investment earnings				5,889	5,944
Other				274,646	274,646
Total general revenues				<u>2,862,400</u>	<u>2,862,455</u>
Change in net assets				(23,130)	(13,396)
Net assets beginning of year, as restated				<u>746,705</u>	<u>771,883</u>
Net assets end of year				<u>\$ 723,575</u>	<u>735,357</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

Tri-County Community School District
Balance Sheet
Governmental Funds
June 30, 2004

Exhibit C

	General	Debt Service	Nonmajor Special Revenue	Total
Assets				
Cash and pooled investments:				
ISCAP	\$ 728,584			728,584
Other	729,669	37,717	227,444	994,830
Receivables:				
Property tax:				
Delinquent	19,169	3,809	2,373	25,351
Succeeding year	892,809		139,954	1,032,763
Income tax	93,240		31,080	124,320
Accounts			1,612	1,612
Accrued interest:				
ISCAP	2,602			2,602
Due from other governments	<u>70,145</u>	<u> </u>	<u> </u>	<u>70,145</u>
Total assets	<u>\$ 2,536,218</u>	<u>41,526</u>	<u>402,463</u>	<u>2,980,207</u>
Liabilities and Fund Balances				
Liabilities:				
Salaries and benefits payable	\$ 63		6,124	6,187
ISCAP warrants payable	724,000			724,000
ISCAP accrued interest payable	3,945			3,945
Deferred revenue:				
Succeeding year property tax	892,809		139,954	1,032,763
Income tax	<u>93,240</u>	<u> </u>	<u>31,080</u>	<u>124,320</u>
Total Liabilities	<u>1,714,057</u>	<u> </u>	<u>177,158</u>	<u>1,891,215</u>
Fund balances:				
Reserved for debt service		41,526		41,526
Unreserved	<u>822,161</u>	<u> </u>	<u>225,305</u>	<u>1,047,466</u>
Total fund balances	<u>822,161</u>	<u>41,526</u>	<u>225,305</u>	<u>1,088,992</u>
Total liabilities and fund balances	<u>\$ 2,536,218</u>	<u>41,526</u>	<u>402,463</u>	<u>2,980,207</u>

See notes to financial statements.

Tri-County Community School District
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 1,088,992
--	--------------

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

1,482,955

Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,848,372)

Net assets of governmental activities

\$ 723,575

See notes to financial statements.

Tri-County Community School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2004

Exhibit E

	General	Debt Service	Nonmajor Special Revenue	Total
Revenues:				
Local sources:				
Local tax	\$ 983,866	195,535	121,635	1,301,036
Tuition	82,026			82,026
Other	85,588	369	159,975	245,932
Income tax	97,244		31,080	128,324
State sources	1,376,215		13,504	1,389,719
Federal sources	<u>146,322</u>			<u>146,322</u>
Total revenues	<u>2,771,261</u>	<u>195,904</u>	<u>326,194</u>	<u>3,293,359</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,134,278		53,106	1,187,384
Special instruction	466,193			466,193
Other instruction	<u>206,208</u>		<u>160,334</u>	<u>366,542</u>
	<u>1,806,679</u>		<u>213,440</u>	<u>2,020,119</u>
Support services:				
Student services	53,985			53,985
Instructional staff services	21,535			21,535
Administration services	364,691			364,691
Operation and maintenance of plant services	192,010		79,561	271,571
Transportation services	<u>159,376</u>		<u>52,528</u>	<u>211,904</u>
	<u>791,597</u>		<u>132,089</u>	<u>923,686</u>
Non-instructional programs	<u>23,742</u>			<u>23,742</u>
Other expenditures:				
Facilities acquisition			56,246	56,246
Long-term debt:				
Principal		130,000		130,000
Interest and fiscal charges		61,134		61,134
AEA flowthrough	<u>108,892</u>			<u>108,892</u>
	<u>108,892</u>	<u>191,134</u>	<u>56,246</u>	<u>356,272</u>
Total expenditures	<u>2,730,910</u>	<u>191,134</u>	<u>401,775</u>	<u>3,323,819</u>
Excess (deficiency) of revenues over (under) expenditures	<u>40,351</u>	<u>4,770</u>	<u>(75,581)</u>	<u>(30,460)</u>
Other financing sources (uses):				
Premium on issuance of bonds		9,606		9,606
Refunding bonds issued		1,575,000		1,575,000
Payment to bond refunding escrow agent		(1,574,413)		(1,574,413)
Total other financing sources (uses)		<u>10,193</u>		<u>10,193</u>
Net change in fund balances	40,351	14,963	(75,581)	(20,267)
Fund balances beginning of year	<u>781,799</u>	<u>26,563</u>	<u>300,886</u>	<u>1,109,248</u>
Fund balances end of year	<u>\$ 822,150</u>	<u>41,526</u>	<u>225,305</u>	<u>1,088,981</u>

See notes to financial statements.

Tri-County Community School District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
Year ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds **\$ (20,267)**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 78,888	
Depreciation expense	(183,188)	(104,300)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(1,584,606)	
Repaid	<u>1,704,413</u>	119,807

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	(18,370)
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Change in net assets of governmental activities **\$ (23,130)**

See notes to financial statements.

Tri-County Community School District
Statement of Net Assets
Proprietary Fund
June 30, 2004

Exhibit G

	Child Care	School Nutrition	Total
Assets			
Cash and cash equivalents	\$	8,144	8,144
Inventories		2,442	2,442
Capital assets, net of accumulated depreciation	<u> </u>	<u>3,247</u>	<u>3,247</u>
Total assets	<u> </u>	<u>13,833</u>	<u>13,833</u>
Liabilities			
Bank overdraft	<u>2,051</u>	<u> </u>	<u>2,051</u>
Total liabilities	<u>2,051</u>	<u> </u>	<u>2,051</u>
Net Assets			
Invested in capital assets, net of related debt		3,248	3,248
Unrestricted	(<u>2,051</u>)	<u>10,586</u>	<u>8,534</u>
Total net assets	\$(<u>2,051</u>)	<u>13,833</u>	<u>11,782</u>

See notes to financial statements.

Tri-County Community School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year ended June 30, 2004

Exhibit H

	Child Care	School Nutrition	Total
Operating revenues:			
Local sources:			
Charges for service	\$ <u>11,207</u>	<u>79,564</u>	<u>90,771</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries and benefits	11,085	57,419	68,504
Benefits	2,701	13,851	16,552
Supplies	<u>89</u>	<u>74,812</u>	<u>74,901</u>
Total operating expenses	<u>13,875</u>	<u>146,082</u>	<u>159,957</u>
Operating loss	(<u>2,668</u>)	(<u>66,518</u>)	(<u>69,186</u>)
Non-operating revenues:			
State sources		2,086	2,086
Federal sources		53,649	53,649
Interest income	<u> </u>	<u>55</u>	<u>55</u>
Total non-operating revenues	<u> </u>	<u>55,790</u>	<u>55,790</u>
Change in net assets	(<u>2,668</u>)	(<u>10,728</u>)	(<u>13,396</u>)
Net assets beginning of year	<u>617</u>	<u>24,561</u>	<u>25,178</u>
Net assets end of year	\$ (<u><u>2,051</u></u>)	<u><u>13,833</u></u>	<u><u>11,782</u></u>

See notes to financial statements.

Tri-County Community School District
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2004

Exhibit I

	Child Care	School Nutrition	Total
Cash flows from operating activities:			
Cash received from child care	\$ 11,207		11,207
Cash received from sale of lunches and breakfasts		79,564	79,564
Cash paid to employees for services	(13,786)	(71,270)	(85,056)
Cash paid to suppliers for goods or services	(89)	(66,915)	(67,004)
Net cash used by operating activities	(2,668)	(58,621)	(61,289)
Cash flows from non-capital financing activities:			
State grants received		2,086	2,086
Federal grants received	_____	<u>46,651</u>	<u>46,651</u>
Net cash provided by non-capital financing activities	_____	<u>48,737</u>	<u>48,737</u>
Cash flows from investing activities:			
Interest on investments	_____	<u>55</u>	<u>55</u>
Net decrease in cash and cash equivalents	(2,668)	(9,829)	(12,497)
Cash and cash equivalents beginning of year	<u>617</u>	<u>17,973</u>	<u>18,590</u>
Cash and cash equivalents end of year	\$(<u>2,051</u>)	<u>8,144</u>	<u>6,093</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$(2,668)	(66,518)	(69,186)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities used		6,998	6,998
Decrease in inventories	_____	<u>899</u>	<u>899</u>
Net cash used by operating activities	\$(<u>2,668</u>)	(58,621)	(61,289)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$6,998 of federal commodities.

See notes to financial statements.

Tri-County Community School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

Exhibit J

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ <u>2,171</u>
Total assets	<u>2,171</u>
Liabilities	
Due to others	<u>2,171</u>
Total liabilities	<u>2,171</u>
Net assets	\$ <u><u>0</u></u>

See notes to financial statements.

Tri-County Community School District
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

Tri-County Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Keswick, Gibson, Thornburg, and What Cheer, Iowa, and the predominate agricultural territory in Iowa, Keokuk, Mahaska, and Poweshiek Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Tri-County Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. Tri-County Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Keokuk County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund, and Child Care Fund. These funds are used to account for the food service operations of the District and child care, respectively.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at

historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	20 years
Improvements other than buildings	20 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are

either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements, certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$384,464 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
--------	--------------	------------------------	-------------	-----------------------------	------------------	--------------------------

2003-04A	6/20/03	6/18/04	\$ 0	0	0	0
2003-04B	1/30/04	1/28/05	478,235	2,601	475,000	3,945
2004-05A	6/30/04	6/30/05	<u>250,350</u>	<u>0</u>	<u>249,000</u>	<u>0</u>
Total			<u>\$ 728,584</u>	<u>2,601</u>	<u>724,000</u>	<u>3,945</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	0	0	0
2002-03A				<u>0</u>
Total	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	2.603%
2003-04B	2.000	1.392
2004-05A	1.590	2.458

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Balance Beginning of	Balance
-------------------------	---------

	Year, as restated (note 9)	Increases	Decreases	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 23,205	_____	_____	<u>23,205</u>
Total Capital assets not being depreciated	<u>23,205</u>	_____	_____	<u>23,205</u>
Capital assets being depreciated:				
Buildings and improvements	3,079,376			3,079,376
Furniture and equipment	<u>1,315,878</u>	<u>78,888</u>	_____	<u>1,394,766</u>
Total capital assets being depreciated	<u>4,395,254</u>	<u>78,888</u>	_____	<u>4,474,142</u>
Less accumulated depreciation for:				
Buildings and improvements	1,624,029	131,196		1,755,225
Furniture and equipment	<u>1,207,181</u>	<u>51,992</u>	_____	<u>1,259,173</u>
Total accumulated depreciation	<u>2,831,210</u>	<u>183,188</u>	_____	<u>3,014,398</u>
Total capital assets being depreciated, net	<u>1,564,044</u>	<u>(104,300)</u>	_____	<u>1,459,744</u>
Governmental activities capital assets, net	<u>\$1,587,249</u>	<u>(104,300)</u>	<u>0</u>	<u>1,482,949</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 3,247	---	---	3,247
Less accumulated depreciation		---	---	
Business type activities capital assets, net	<u>\$ 3,247</u>	=====	=====	<u>3,247</u>

Depreciation expense was charged to the following functions:

Unallocated	<u>183,188</u>
Total depreciation expense - governmental activities	<u>\$183,188</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

Balance Beginning	End	Due Within
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	of Year	Additions	Reductions	of Year	One Year
General obligation bonds	\$ 1,760,000	1,575,000	1,505,000	1,830,000	125,000
Early retirement		<u>18,372</u>		<u>18,372</u>	<u>6,124</u>
Total	\$ <u>1,760,000</u>	<u>1,593,372</u>	<u>1,505,000</u>	<u>1,848,372</u>	<u>131,124</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed twenty years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is as follows:

100% of the difference between the BA Step 0 and the employee's position on the salary scale as of the start of the following school year. In addition, if the employee has more than 25 consecutive years, they will be entitled to \$1,500 additional for five years.

No early retirement benefits were paid during the year ended June 30, 2004.

Bonded Debt

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Principal	Principal	Interest	Total
2005	70,000	55,000	64,469	189,469
2006	75,000	55,000	59,869	189,869
2007	80,000	55,000	54,443	189,443
2008	90,000	50,000	44,763	184,763
2009		145,000	43,833	188,833
2010		150,000	39,990	189,990
2011		155,000	35,490	190,490
2012		155,000	30,530	185,530
2013		165,000	25,415	190,415
2014		170,000	19,805	189,805
2015		175,000	13,685	188,685
2016		<u>185,000</u>	<u>7,123</u>	<u>192,123</u>
Total	<u>\$315,000</u>	<u>\$1,515,000</u>	<u>\$439,415</u>	<u>\$2,269,415</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The

report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$94,508, \$90,626 and \$94,938 respectively, equal to the required contributions for each year.

(7) Risk Management

Tri-County Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$108,892 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				
	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Net assets June 30, 2003, as previously reported	\$ <u>781,799</u>	<u>26,563</u>	<u>14,514</u>	<u>286,372</u>	1,109,248
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$ 2,831,210					1,587,249
Long-term liabilities:					
Bonds and notes					(1,760,000)
Deferred revenue					(189,792)
Net assets July 1, 2003, as restated				\$ <u>746,705</u>	

Tri-County Community School District
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	<u>Budgeted Amounts</u>		Final to Actual Variance
				Original	Final	
Receipts:						
Local sources	\$ 1,714,895	90,826	1,805,721	1,856,814	1,856,814	(51,093)
State sources	1,389,719	2,086	1,391,805	1,580,756	1,580,756	(188,951)
Federal sources	<u>146,322</u>	<u>46,651</u>	<u>192,973</u>	<u>177,000</u>	<u>177,000</u>	<u>15,973</u>
Total receipts	<u>3,250,936</u>	<u>139,563</u>	<u>3,390,499</u>	<u>3,614,570</u>	<u>3,614,570</u>	<u>(224,071)</u>
Disbursements:						
Instruction	2,013,932		2,013,932	2,665,188	2,665,188	651,256
Support services	923,686		923,686	1,053,851	1,053,851	130,165
Non-instructional programs	23,742	152,060	175,802	280,455	280,455	104,653
Other expenditures	<u>356,272</u>	<u> </u>	<u>356,272</u>	<u>411,574</u>	<u>411,574</u>	<u>55,302</u>
Total disbursements	<u>3,317,632</u>	<u>152,060</u>	<u>3,469,692</u>	<u>4,411,068</u>	<u>4,411,068</u>	<u>941,376</u>
Deficiency of receipts under disbursements	(66,696)	(12,497)	(79,193)	(796,498)	(796,498)	717,305
Other financing sources, net	<u>10,193</u>	<u> </u>	<u>10,193</u>	<u> </u>	<u> </u>	<u>10,193</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(56,503)	(12,497)	(69,000)	(796,498)	(796,498)	727,498
Balances beginning of year	<u>1,051,333</u>	<u>18,590</u>	<u>1,069,923</u>	<u>796,498</u>	<u>796,498</u>	<u>273,425</u>
Balances end of year	\$ <u>994,830</u>	<u>6,093</u>	<u>1,000,923</u>	<u>0</u>	<u>0</u>	<u>1,000,923</u>

See accompanying independent auditor's report.

Tri-County Community School District
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 3,250,936	42,423	3,293,359
Expenditures	<u>3,317,632</u>	<u>(6,187)</u>	<u>3,323,819</u>
Net	(66,696)	36,236	(30,460)
Other financing sources, net	10,193		10,193
Beginning fund balances	<u>1,051,333</u>	<u>57,915</u>	<u>1,109,248</u>
Ending fund balances	\$ <u>994,830</u>	<u>94,151</u>	<u>1,088,981</u>

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 139,563	6,998	146,561
Expenses	<u>152,060</u>	<u>(7,897)</u>	<u>159,957</u>
Net	(12,497)	(899)	(13,396)
Beginning net assets	<u>18,590</u>	<u>6,588</u>	<u>25,178</u>
Ending net assets	\$ <u>6,093</u>	<u>5,689</u>	<u>11,782</u>

See accompanying independent auditor's report.

Tri-County Community School District
Notes to Required Supplementary Information - Budgetary Reporting
Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Tri-County Community School District
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

Schedule 1

	Local Option Sales tax	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets					
Cash and pooled investments	\$ 26,406	2,601	86,622	111,815	227,444
Receivables:					
Property tax:					
Delinquent		1,253		1,120	2,373
Succeeding year		94,266		45,688	139,954
Income tax				31,080	31,080
Accounts	<u>1,612</u>	<u> </u>	<u> </u>	<u> </u>	<u>1,612</u>
Total assets	\$ <u>28,018</u>	<u>\$98,120</u>	<u>86,622</u>	<u>189,703</u>	<u>402,463</u>
Liabilities and Fund Equity					
Liabilities:					
Salaries and benefits payable	\$	6,124			6,124
Deferred revenue:					
Succeeding year property tax		94,266		45,688	139,954
Income tax	<u> </u>	<u> </u>	<u> </u>	<u>31,080</u>	<u>31,080</u>
Total Liabilities		100,390		76,768	177,158
Fund equity:					
Unreserved fund balances	<u>28,018</u>	(<u>2,270</u>)	<u>86,622</u>	<u>112,935</u>	<u>225,305</u>
Total liabilities and fund equity	\$ <u>28,018</u>	<u>\$ 98,120</u>	<u>86,622</u>	<u>189,703</u>	<u>402,463</u>

See accompanying independent auditor's report.

Tri-County Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year ended June 30, 2004

Schedule 2

	Local Option Sales tax	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:					
Local sources:					
Local tax	\$	64,197		57,438	121,635
Other			159,399	576	159,975
Income tax				31,080	31,080
State sources	<u>13,504</u>				<u>13,504</u>
Total revenues	\$ <u>13,504</u>	<u>64,197</u>	<u>159,399</u>	<u>89,094</u>	<u>326,194</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction		29,531		23,755	53,106
Other instruction			160,334		160,334
Support services:					
Student transportation				52,528	52,528
Operation and maintenance of plant services		79,561			79,561
Other expenditures:					
Facilities and equipment acquisition	<u> </u>	<u>109,092</u>	<u>160,334</u>	<u>56,246</u>	<u>56,246</u>
Total expenditures	<u> </u>	<u>109,092</u>	<u>160,334</u>	<u>132,349</u>	<u>401,775</u>
Excess (deficiency) of revenues over (under) expenditures	13,504	(44,895)	(935)	(43,255)	(75,581)
Fund balances beginning of year, as restated	<u>14,514</u>	<u>42,626</u>	<u>87,557</u>	<u>156,189</u>	<u>300,886</u>
Fund balances end of year	\$ <u>28,018</u>	\$ (<u>2,269</u>)	<u>86,622</u>	<u>112,934</u>	<u>225,305</u>

See accompanying independent auditor's report.

Tri-County Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2004

Schedule 3

Account	Balance Beginning Revenues	Revenues	Expenditures	Balance End of Year
Elementary	14,867	13,187	14,861	13,193
High School:				
Athletic clinics	213	---	104	109
Activity tickets	468	---	---	468
Athletic auction	729	---	600	129
Annual	(684)	14,814	14,130	---
Athletics - Non-resale	2,959	15,601	17,818	742
Athletic gate receipts	6,726	23,406	19,132	11,000
Athletic improvement	635	---	152	483
Athletic resale	442	10,919	11,025	336
Athletic uniforms	4,296	3,058	3,691	3,663
Band miscellaneous	351	235	125	461
Candy fund raiser	5,975	7,470	4,033	9,412
Cheerleaders fund raising	1,882	1,308	2,174	1,016
Class of 2004	2,103	17,457	18,903	657
Class of 2007	369	563	633	299
Character counts	121	---	---	121
Class of 2005	3,527	4,337	2,501	5,363
Cross Country	413	---	---	413
Drama	1,303	1,913	2,052	1,164
F.F.A.	2,435	17,135	13,926	5,644
Football camp	189	---	---	189
Girls basketball camp	17	---	---	17
Graduated classes	1,932	316	1,007	1,241
Greenhouse	812	1,274	1,660	426
Vocal - misc.	45	143	149	39
Home Ec. resale	145	73	72	146
Industrial arts	(261)	3,291	3,030	---
Instrumental music-resale	---	28	---	28
Instrumental / Vocal trip	2,079	3,554	2,114	3,519
Interest earned on idle funds	21,774	585	10,191	12,168
Juice machine and High Sch vending	1,300	3,055	2,563	1,792
Junior High miscellaneous	1,806	---	---	1,806
Miscellaneous	25	---	---	25
Miscellaneous - student	202	947	781	368
Padlock resale	469	149	---	618
Pop	93	---	---	93
School pictures	106	708	410	404
School time and 24 hr insurance	222	---	---	222
Shop glasses	158	213	371	---
Spanish club	1,137	---	---	1,137
P.C. Revenue	1,288	---	---	1,288
Stage curtains	224	---	---	224
Student council	698	846	253	1,291
Vocational agriculture	111	---	---	111
National Honor Society	238	139	212	165
Golf	428	211	---	639
Vocal Fund	301	1,231	1,048	484
TAG	1,528	7,607	8,678	457
Class of 2006	170	2,494	---	2,664
Dance squad	<u>1,191</u>	<u>1,132</u>	<u>1,935</u>	<u>388</u>
Total	<u>\$87,557</u>	<u>\$159,399</u>	<u>\$160,334</u>	<u>\$86,622</u>

See accompanying independent auditor's report.

Tri-County Community School District
Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund
Year ended June 30, 2004

Schedule 4

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ <u>1,742</u>	<u>465</u>	<u>36</u>	<u>2,171</u>
Total assets	\$ <u><u>1,742</u></u>	<u><u>465</u></u>	<u><u>36</u></u>	<u><u>2,171</u></u>
Liabilities				
Due to others	\$ <u>1,742</u>	<u>465</u>	<u>36</u>	<u>2,171</u>
Total liabilities	\$ <u><u>1,742</u></u>	<u><u>465</u></u>	<u><u>36</u></u>	<u><u>2,171</u></u>

See accompanying independent auditor's report.

Tri-County Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 5

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,301,036	1,282,717	1,144,425	1,060,980
Tuition	82,026	77,185	43,827	59,642
Other	374,256	384,450	361,666	335,428
State sources	1,389,719	1,682,761	1,443,835	1,524,145
Federal sources	<u>146,322</u>	<u>123,855</u>	<u>85,538</u>	<u>95,855</u>
Total	<u>\$ 3,293,359</u>	<u>3,550,968</u>	<u>3,079,291</u>	<u>3,076,050</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,187,384	1,156,560	1,226,888	1,255,874
Special instruction	466,193	390,515	391,895	400,100
Other instruction	366,542	353,074	348,149	342,457
Support services:				
Student services	53,985	52,064	50,301	48,500
Instructional staff services	21,535	22,398	44,436	49,893
Administration services	364,691	320,105	294,373	296,878
Operation and maintenance of plant services	271,571	251,794	249,194	258,125
Transportation services	211,904	168,468	180,681	256,851
Non-instructional programs	23,742	16,805	21,454	20,558
Other expenditures:				
Facilities acquisition	56,246	64,222	52,420	68,338
Long-term debt:				
Principal	130,000	95,000	90,000	85,000
Interest and other charges	61,134	103,043	107,663	111,922
AEA flow-through	<u>108,892</u>	<u>118,712</u>	<u>109,364</u>	<u>115,893</u>
Total	<u>\$ 3,323,819</u>	<u>3,112,760</u>	<u>3,166,818</u>	<u>3,310,389</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Tri-County Community School District:

We have audited the financial statements of Tri-County Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Tri-County Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-County Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Tri-County Community School District and other parties to whom Tri-County Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Tri-County Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ROLAND & DIELEMAN

Certified Public Accountants

August 30, 2004

Tri-County Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-04 Segregation of Duties - The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in school District's of your size, but the Board should constantly be aware of this condition and realize that concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the District's operations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to investigate alternatives to this problem.

Conclusion - Response accepted.

Tri-County Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed certified budget amounts.
- II-C-04 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-04 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-04 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

Tri-County Community School District
Staff

This audit was performed by:

Roger Roland, CPA
Ed Dieleman, CPA
Royal Roland, CPA